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Economic Recovery Tools

New Markets Tax Credit: Under current law, there are $3.5 billion of New Markets Tax Credits (NMTC) available for each of 2008 and 2009. The provision increases the available credits for 2008 to $5 billion and the available credits for 2009 to $5 billion.

Recovery Zone Bonds: The legislation creates a new category of tax credit bonds for investment in economic recovery zones. It authorizes $10 billion in recovery zone economic development bonds and $15 billion in recovery zone facility bonds. These bonds could be issued during 2009 and 2010.

Each state would receive a share of the national allocation based on that state's job losses in 2008 as a percentage of national job losses in 2008. These allocations will be sub-allocated to local municipalities, these bonds would be permitted to use these bonds to invest in infrastructure, job training, education, and economic development in areas within the boundaries of city or county that has significant poverty, unemployment or home foreclosures.

Infrastructure Financing Tools

Modify Speed Requirement for High-Speed Rail Exempt Facility Bonds: Under current law, States are allowed to issue private activity bonds for high-speed rail facilities. The bill allows these bonds to be used to develop rail facilities that are used by trains that are capable of attaining speeds in excess of 150 miles per hour.

Qualified School Construction Bonds: The bill creates a new category of tax credit bonds for the construction, rehabilitation, repair, or acquisition of land of/for public school facilities.

There is a national limitation on the amount of bonds that may be issued by State and local governments of $22 billion ($11 billion allocated initially in 2009 and the remainder allocated in 2010).

Extension and Increase in Authorization for Qualified Zone Academy Bonds (QZABs): The bill allows an additional $1.4 billion of QZAB issuing authority to State and local governments in 2009 and 2010, which can be used to finance renovations, equipment purchases, developing course material, and training teachers and personnel at a qualified zone academy. In general, a qualified zone academy is any public school (or academic program within a public school) below college level that is located in an empowerment zone or enterprise community and is designed to cooperate with businesses to enhance academic curriculum, increase graduation, and employment rates.

"Build America Bonds," Tax Credit Bond Option for State and Local Governments: For 2009 and 2010, State and local governments have the option of issuing a tax credit bond instead of a tax-exempt governmental obligation bond.

Because the market for tax credits is currently small given current economic conditions, State or local governments may elect to receive a direct payment from the Federal government equal to the subsidy that would have otherwise been delivered through the Federal tax credit for bonds.

Eliminate Costs Imposed on State and Local Governments by the Alternative Minimum Tax: The alternative minimum tax (AMT) can increase the costs of issuing tax-exempt private activity bonds imposed on State and local governments. Under current law, interest on tax-exempt private activity bonds is generally subject to the AMT. This limits the marketability of these bonds and, therefore, forces State and local governments to issue these bonds at higher interest rates. Last year, Congress excluded one category of private activity bonds (tax-exempt housing bonds) from the AMT. The bill excludes the remaining categories of private activity bonds from the AMT for bonds issued in 2009 or 2010. The bill also allows AMT relief for current refunding of private activity bonds issued after 2003 and refunded during 2009 and 2010.

Delay Application of Withholding Requirement on Certain Governmental Payments for Goods and Services: For payments made after December 31, 2010, the Code requires withholding at a three percent rate on certain payments to persons providing property or services made by Federal, State, and local governments. The withholding is required regardless of whether the government entity making the payment is the recipient of the property or services (those with less than $100 million in annual expenditures for property or services are exempt). The provision delays for one year (through December 31, 2011) the application of the three percent withholding requirement on government payments for goods and services.

For questions about this, or any other aspect of the Recovery bill, please call our office at

(800)964-4699.

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